

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
SHERIFF**

**For The Year Ended
December 31, 2002**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Ronnie Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Elliott County, Kentucky, for the year ended December 31, 2002.

We engaged Morgan-Franklin, LLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Elliott County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY SHERIFF

**For The Year Ended
December 31, 2002**

Morgan-Franklin, LLC has completed the Elliott County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Revenues increased by \$3,597 from the prior year and disbursements increased by \$1,252. However, there were no excess fees due for either fiscal year.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Morgan-Franklin, LLC
Certified Public Accountants
P.O. Box 428
513 Main Street
West Liberty, Kentucky 41472

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Elliott County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
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Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Ronnie Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 17, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
July 17, 2003

ELLIOTT COUNTY
 RONNIE STEPHENS, COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

State Fees For Services:		
Finance and Administration Cabinet	\$	3,192
Circuit Court Clerk:		
Sheriff Security Service	\$	1,364
Fines and Fees Collected		90
Court Ordered Payments		2,554
		<hr/>
Fiscal Court		63,735
County Clerk - Delinquent Taxes		1,588
Commission On Taxes Collected		35,852
Fees Collected For Services:		
Auto Inspections	\$	2,375
Accident and Police Reports		215
Serving Papers		1,980
Carrying Concealed Deadly Weapon Permits		1,500
FADE Detective Overtime		3,800
FADE Detective Overtime Matching		1,949
Bond Refund		51
Add-On Fees		10,773
Sheriff Fee on Taxes		1,155
Advertising Fees		570
Delinquent Taxes From Revenue		12
Election Work		30
		<hr/>
Other:		
Body Armor		388
Interest Earned		93
		<hr/>
Total Receipts	\$	131,812

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
 RONNIE STEPHENS, COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$	18,375
Other Gross Salaries		16,998
Overtime Gross Salaries		4,591

Employee Benefits-

Employer's Share Social Security		6,558
Employer's Share Retirement		586
Employer's Share Hazardous Duty Retirement		15,171
Overtime Matching/Benefits		1,162
Training Fringe Benefit (HB810)		747

Contracted Services-

Advertising		1,459
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Materials and Supplies-

Office Materials and Supplies		884
Uniforms		527

Other Charges-

Dues		325
Postage		872
Insurance		449
Fiscal Court Fees from Executions		1,000
Carrying Concealed Deadly Weapon Permits		920
Telephone		1,810
Body Armor		350
Miscellaneous		254

Capital Outlay-

Office Equipment	\$	962
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Total Disbursements	\$	<u>74,000</u>
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Net Receipts	\$	57,812
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Less: Statutory Maximum		<u>57,812</u>
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Excess Fees Due County for 2002	\$	<u><u>0</u></u>
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The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the entire year. All Sheriff's Office employees are covered under hazardous retirement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Grants

The Office of the Elliott County Sheriff received \$5,749 as part of the Fivco Area Drug Enforcement (FADE) Task Force. These funds were used to pay salaries for the Sheriff's office. The grant balance is \$0 at December 31, 2002.

COMMENT AND RECOMMENDATION

ELLIOTT COUNTY
RONNIE STEPHENS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by an employee and distributes checks to employees
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

County Sheriff's Response:

No Response.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Morgan-Franklin, LLC
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To the People of Kentucky

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Elliott County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated July 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
July 17, 2003

